



COUNCILMEMBER CARL DEMaIO

FIFTH DISTRICT
CITY OF SAN DIEGO

MEMORANDUM

DATE: June 10, 2009

TO: Mayor Jerry Sanders

FROM: Councilmember Carl DeMaio *Carl DeMaio*

RE: New City Hall: Exclusive Negotiating Agreement (ENA)

I appreciate your commitment to a public vote on the new City Hall as a condition of proceeding forward with negotiations with the developer. Requiring a public vote on such a financially significant project will ensure that negotiations remain focused on maximizing taxpayer benefit in the deal – and provide for maximum public transparency and engagement in the process.

I also support your position that the project “must save the city money *every* fiscal year” (emphasis added). As I have argued since the emergence of this project, the City’s precarious financial condition requires we aggressively manage city expenditures in the next 10 years as we pay down accrued liabilities and debts.

In your proposed evaluation criteria, you reference a “Hold Steady” proposal, and attribute it to my office. To be clear, this is not a proposal I authored.

As outlined in their report, Ernst & Young did not endorse a specific “Hold Steady” proposal, but rather called on the city to explore alternatives that would allow the city to avoid or delay construction of a new City Hall as part of such an alternative.

Specifically, E&Y recommended that other options, such as exploring the possibility of acquiring “a building in a distressed situation at a price below replacement cost as part of” the Hold Steady analysis be pursued. The E&Y report goes on to state that such options could be “evaluated in conjunction with a short-term Hold Steady Scenario.”

Unfortunately, instead of exploring a wide range of options, the Center City Development Corp. has defined only one “Hold Steady” scenario – and has incorporated numerous flawed assumptions into this scenario. In addition to pointing out these flaws and asking that they be corrected, I have made several recommendations as to what a true “Hold Steady” scenario might look like.

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As your office conducts the comparison to the Hold Steady proposal that you cite in your press release, I hope you will adjust the analysis provided by CCDC for the issues laid out in my previous correspondence – including the following:

- Using two similarly-sized City Halls for the comparison so we have an “apples-to-apples” comparison.
- Backing out capital expenses for improving the Concourse in the next 10 years. The Concourse is only used to house 60 city staff members, and any capital expenses would be wasted after 10 years with planned demolition of this building.
- Adjusting lease rates to reflect probable lease rates afforded the city in this highly renter-friendly commercial lease market. Specifically, I have proposed the formation of a team to negotiate commercial leases and explore two to three other options for the City concurrent with any negotiations for construction of a new City Hall.
- Backing out any revenues derived from land sales to achieve a real comparison between net cost of office space in the comparison years.
- Ensuring that other assumptions, such as financing methods (e.g. tax exempt debt) in the City Hall modeled by CCDC and the one in the redevelopment proposal are similar.

Taxpayers will benefit from the provision of more accurate and comprehensive comparisons from which to cast informed ballots. As I know you share that objective, my office stands ready to assist yours in this regard.

CC: Honorable City Councilmembers